

Message Text

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ACTION EB-07

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E.O. 11652: N/A

TAGS: EFIN, LA

SUBJECT: BANKING IN LAOS: STATUS REPORT

REF: 75 VIENTIANE 6262

SUMMARY. THE BANKING SITUATION IN LAOS IS STILL CONFUSED, BUT THE GENERAL OUTLINE OF NEW SYSTEM OF BANKING IS BEGINNING TO EMERGE. ALL FOUR FORMER PRIVATE BANKS (BANQUE DE L'INDOCHINE, BANQUE LAO VIENG, LAO COMMERCIAL DEVELOPMENT BANK AND BANK OF VIENTIANE) REMAIN CLOSED, ALTHOUGH PREMISES OF TWO OF THEM ARE BEING USED FOR NEW STATE-OPERATED BANKS. FOUR BANKS NOW IN OPERATION IN VIENTIANE ARE NATIONAL BANK OF LAOS, FOREIGN TRADE BANK, DEVELOPMENT BANK AND MUNICIPAL BANK. FUNCTIONS OF EACH OF THESE BANKS ARE EXPLAINED BELOW. END SUMMARY.

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2. NATIONAL BANK OF LAOS (NBL): THIS BANK HAS OVER-ALL

RESPONSIBILITY FOR SUPERVISING THE BANKING SYSTEM. IN THEORY, NBL IS TO HANDLE LAO GOVERNMENT TRANSACTIONS ONLY. NBL IS CHARGED WITH PRODUCING STATISTICS AND INFORMATION ON BANKING AND CREDIT AND ON GOVERNMENT REVENUES AND EXPENDITURES FOR LAOS. IN PRACTICE, HOWEVER, DURING TRANSITION PERIOD (SEPTEMBER 1975 THROUGH JANUARY, 1976) AFTER PRIVATE BANKS WERE CLOSED, ONLY USABLE ACCOUNTS WERE THOSE AT NATIONAL BANK. NBL IS NOW TRYING TO GET OUT OF THIS BUSINESS; PRIVATE LAO CITIZENS, MERCHANTS AND LANDLORDS, EMBASSIES IN VIENTIANE AND SO FORTH ARE NOW BEING DIRECTED TO OPEN ACCOUNTS AT ONE OF THE OTHER THREE BANKS AS APPROPRIATE. FOR EXAMPLE, LANDLORDS WHO RECEIVE RENTALS IN FOREIGN CURRENCY WERE REQUIRED DURING TRANSITION PERIOD TO OPEN ACCOUNTS IN NBL TO WHICH RENTS WERE DEPOSITED. RECENTLY, SOME LANDLORDS HAVE BEEN TOLD TO OPEN SUCH ACCOUNTS FOR RECEIPT OF FOREIGN EXCHANGE DEPOSITS AT FOREIGN TRADE BANK. SIMILARLY, WE UNDERSTAND EMBASSIES ARE NOW ADVISED TO ESTABLISH THEIR FOREIGN-EXCHANGE ACCOUNTS WITH FOREIGN TRADE BANK.

2. FOREIGN TRADE BANK: THIS BANK WAS OPENED ON PREMISES OF FORMER BANQUE DE L'INDOCHINE AND STILL EMPLOYS SOME LOCAL STAFF OF THE FORMER BANK. ITS MANDATE, AS NAME INDICATES, IS TO HANDLE ALL FOREIGN COMMERCIAL TRANSACTIONS. MERCHANT WHO WISHES TO PURCHASE FOREIGN EXCHANGE FOR IMPORTS IS NOW TOLD TO ADDRESS HIMSELF TO FOREIGN TRADE BANK (ALTHOUGH HE WOULD NEED PRIOR APPROVAL OF MINISTRY OF FINANCE AND MINISTRY OF INDUSTRY AND COMMERCE FOR TRANSACTION). FOREIGN EXCHANGE EARNED FROM COMMERCIAL EXPORTS IS TO BE DEPOSITED IN THIS BANK. AS NOTED ABOVE, PRIVATE ACCOUNTS IN FOREIGN EXCHANGE ARE TO BE KEPT IN THIS BANK. MONEY CAN BE DRAWN OUT IN LAOS ONLY IN KIP AT OFFICIAL RATE (1200 TO 1 DOLLAR U.S.).

3. MUNICIPAL BANK: THIS BANK OCCUPIES PREMISES OF FORMER BANQUE LAO VIENG IN VIENTIANE. PRIVATE CITIZENS IN VIENTIANE AREA WHO WISH TO OPEN KIP CHECKING ACCOUNTS ARE NOW BEING REQUIRED TO USE THIS BANK. (WE DO NOT LIMITED OFFICIAL USE

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KNOW WHETHER SIMILAR "MUNICIPAL" BANKS ARE TO BE OPENED IN OTHER CITIES OF LAOS.) MUNICIPAL BANK HAS NO ARRANGEMENT FOR PAYING INTEREST TO DEPOSITOR ON SAVINGS ACCOUNT.

4. DEVELOPMENT BANK: APART FROM NBL, THIS IS ONLY BANK IN VIENTIANE THAT HAS SURVIVED THE TRANSITION. A STATE-RUN BANK OPERATING ON COMBINATION OF STATE FUNDS AND

PRIVATE DEPOSITORS' MONEY, IT WAS ESTABLISHED TO ENCOURAGE DEVELOPMENT PROJECTS IN PRIVATE SECTOR BY PROVIDING LOW-INTEREST LOANS. SINCE SEPTEMBER, 1975, IT HAS EXISTED IN BACKWATER. WE DO NOT KNOW IF ANY NEW LOANS HAVE BEEN MADE. NEW ACCOUNTS ARE NOT BEING ACCEPTED. HOWEVER, PRIVATE DEPOSITORS WHO ESTABLISHED ACCOUNTS IN DEVELOPMENT BANK BEFORE TRANSITION PERIOD CONTINUE TO RECEIVE INTEREST (VARYING FROM 3.5 PERCENT TO 8 PERCENT ANNUALLY ACCORDING TO TYPE OF DEPOSIT) ON THEIR SAVINGS. DEVELOPMENT BANK CUSTOMERS WHO WANTED TO WITHDRAW THEIR MONEY HAVE BEEN ALLOWED TO DO SO PIECEMEAL (WITHDRAWALS UP TO 70,000 KIP A WEEK ARE PERMITTED) WITHOUT JUSTIFYING NEED FOR MONEY TO NBL AND OBTAINING NBL APPROVAL, AS CUSTOMERS OF PRIVATE BANKS WERE REQUIRED TO DO. FUTURE OF DEVELOPMENT BANK IS STILL UNCERTAIN.

5. BIG LOSERS IN REORGANIZATION OF LAO BANKING SYSTEM WERE STOCKHOLDERS AND CUSTOMERS OF PRIVATE BANKS. PRIVATE BANKS LOST ALL THEIR ASSETS (WHICH WERE MINIMAL EXCEPT IN CASE OF BANQUE DE L'INDOCHINE), AND WE HAVE HEARD NO PLAN TO COMPENSATE STOCKHOLDERS. IN ANY CASE, BY SEPTEMBER, 1975, ALL THREE LOCALLY-OWNED PRIVATE BANKS WERE PROBABLY ON VERGE OF BANKRUPTCY AND MANY OF THEIR STOCKHOLDERS HAD LEFT LAOS.

6. AS FOR CUSTOMERS OF PRIVATE BANKS, SOME OF THEM WERE ABLE TO MAKE WITHDRAWALS FROM THEIR ACCOUNTS BY EXPLAINING WHY THEY NEEDED THEIR MONEY AND GETTING APPROVAL OF NBL. HOWEVER, WE HAVE HEARD THAT CUSTOMERS OF LAO VIENG AND LAO COMMERCIAL DEVELOPMENT BANK HAVE BEEN UNABLE TO WITHDRAW ANYTHING BECAUSE GOVERNMENT AUDITORS SAY THERE WAS ALMOST NO MONEY IN EITHER BANK WHEN THEY WERE TAKEN OVER. (PATHET LAO AUDITOR TOLD CUSTOMER OF LIMITED OFFICIAL USE

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BANQUE LAO VIENG THAT BANK'S HOLDINGS WERE LESS THAN ONE MILLION KIP WHEN IT WAS SEIZED.) WE ASSUME MANY CUSTOMERS OF PRIVATE BANKS HAVE SIMPLY LOST WHATEVER DEPOSITS THEY HAD.
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